

**THE DIFFUSION  
OF MILITARY TECHNOLOGIES  
TO FOREIGN NATIONS:  
*ARMS TRANSFERS CAN PRESERVE  
THE DEFENSE TECHNOLOGICAL AND INDUSTRIAL BASE***

**BY  
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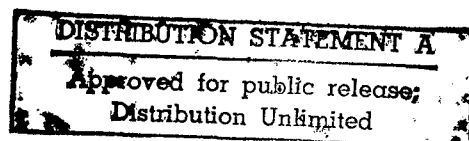
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## ABSTRACT

The purpose of this work is to recommend the United States government maintain the defense technological and industrial base (DTIB) by aggressively supporting the US defense industry in the arms transfer process. Ironically, this recommendation is contrary to the position held at the onset of this research and analysis effort. It is written for the micro-level reader (the young pilot, tank operator, etc.), the macro-level reader (US government staffers and above in the State and Defense Departments), and senior government officials (Generals, Congressmen, and Senators) to inform and enhance their ability to understand the DTIB and how arms transfers can help in its preservation.

To accomplish this purpose, this paper has three aims. First, this paper recognizes that the DTIB requires preservation. With the end of the Cold War and the continuing drawdown of US military forces and equipment, the DTIB is deteriorating. In this authors view, this decline can only be arrested with the help of the US government.

Second, it describes arms transfers as an instrument of foreign policy based on US national security interests and the foreign policy challenges of the day. The history of arms transfers is broken down into four periods, between 1945 and the present, to demonstrate this assertion. It predicts arms transfers will continue to be an instrument of foreign policy and can be used to enhance our DTIB.

Third, it focuses on the current arms transfer decisionmaking process and represents it as a "Labyrinth of Control." This section of the paper demonstrates the maze of controls used to adequately ensure that US military technologies are not diffused to foreign nations. A common, but misguided, view is that the US is selling its technological superiority through arms sales. In reality, the US can sell a technological *product* while maintaining control of related technological *processes*. Arms transfers can enhance supporting technologies by preserving the DTIB through ongoing and continuous production. It suggests the US government, especially the Department of State and Department of Defense, review, streamline and liberalize arms transfer procedures.

In conclusion, this paper recommends the US government support industry by becoming actively involved in the arms transfer process. Offsets and coproduction agreements must be understood by US officials in negotiations with foreign nations. By allowing the transfer of US military weapon systems in their export version, the DTIB can be maintained without any loss in technological superiority. This study shows the US government can maintain the DTIB by actively and aggressively supporting industry in the arms transfer process.

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## CHAPTER ONE

### Preserving the Defense Technological and Industrial Base

*The defense technological and industrial base has been called "the fifth service," ranking in importance only after the Army, Air Force, Navy, and Marine Corps. Just as the services are shrinking in the backwash of the abrupt Soviet crackup, America's sprawling defense-industrial complex, after operating virtually on a wartime footing for more than four decades, is also poised on the cusp of a dramatic downsizing."*

David C. Morrison

The future security of the United States (US) will depend on the ability of the defense technological and industrial base (DTIB) to maintain its technological lead and production capacity. At present, the US government is doing little to help preserve that base. The rapid decline in defense budgets is threatening the ability of industry to support the country's future defense requirements. Over the past five years, procurement funds have declined from \$118 billion in 1990 to \$58 billion in 1995. The President's fiscal year 1993 budget called for a \$50 billion reduction in US defense budget authority over 5 years and deeper cuts can be expected.<sup>1</sup> This makes for a growing challenge in regards to the military industrial complex.

The challenge will be in finding a way to preserve the DTIB. "The Defense Department is simply going to buy a lot less than we have in the past," said Donald Atwood, deputy secretary of Defense, in an interview with *Government Executive* in 1992. He points out that not only are the Services shrinking, but arsenals are swollen with excess equipment purchased during the 1980's buildup. "The net result is that there

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<sup>1</sup> Jeff Bingaman, *Defense Industrial Base: An Overview of an Emerging Issue*, US General Accounting Office (Washington DC: March 1993): 1.

is just not enough money now for everyone to thrive as they did in the past. And that's hard for people to accept."<sup>2</sup>

The purpose of this paper is to recommend the US government maintain the DTIB by liberalizing and streamlining controls and encouraging US industry in regards to arms transfers. First, it will define and describe the DTIB and the importance of its preservation. Next, it will summarize US arms transfer policy since 1945 demonstrating that Presidents and their administrations make rational political choices in foreign policy decision-making. Third, it will demonstrate the maze of controls on the transfer of military technologies to foreign nations. Finally, it will recommend the US government preserve the DTIB by actively supporting industry in the arms transfers process.

### **Chapter Summaries**

Before demonstrating how US arms transfer policy can be changed to help preserve the DTIB, a cursory review of terms common to the foreign sales community, along with a historical review of US foreign arms sales is warranted. This is presented in the next chapter.

Moving from the historical precedents to the present, there is a great fear the US has little or no control over arms transfers and is giving away its technological edge. Chapter three addresses those concerns and answers the question on the control of the diffusion of advanced military technologies. It demonstrates the "labyrinth of control" in this area. The Department of State (DOS) and the Department of Defense (DOD), along with many other governmental agencies, work together in a maze of controls comprising

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<sup>2</sup> Donald Atwood, "Managing Decline," *Government Executive* (Washington DC: August 1992): 58.



the arms transfer decisionmaking process.<sup>3</sup> Chapter three demonstrates, through an analysis of current security assistance policy and interviews with many security assistance experts, the US government would find it difficult to release anything considered close to an advanced technology. Also, one aspect of interagency control will be described, the National Disclosure Policy Committee, which will demonstrate the level of attention that each major arms transfer receives. It will confirm how proficient the US is at close-holding advanced military technologies.

Given a good understanding of US foreign arms sales controls, chapter four recommends a policy shift toward an economic security mindset and takes the position that it is time for the US government to support the DTIB by encouraging US industry toward worldwide arms sales. Although President Clinton's Conventional Arms Transfer Policy recognizes the importance of economic security by making it a policy goal to, "Enhance the ability of the US defense industrial base to meet US defense requirements and maintain long-term military technological superiority at lower costs,"<sup>4</sup> it offers few suggestions on how to accomplish this and continues to stress a cold war security mentality. A discussion of offsets and coproduction agreements will demonstrate the importance of the current global economy and its affect on the US DTIB. The emphasis of this chapter will be to illustrate that in order to keep the DTIB prosperous and competitive the US government must aggressively support and allow US arms transfers. The final chapter reviews the major conclusions of this research and presents recommendations for the future of US arms transfers.

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<sup>3</sup> In chapter 3 this "Labyrinth" will be addressed in detail.

<sup>4</sup> US Conventional Arms Transfer Policy, 17 Feb 95.

## A Starting Point

US security assistance is founded on a tradition of cooperation between the US and other sovereign nations with similar values and interests in order to meet common defense goals. It consists of a group of programs authorized by the US Foreign Assistance Act of 1961, as amended, and the Arms Export Control Act of 1976, as amended, and related statutes by which DOD or commercial contractors provide defense articles and services in furtherance of national policies and objectives.<sup>5</sup> Foreign Military Sales (FMS) and International Military Education and Training (IMET) are two key programs included in security assistance. This paper will not discuss IMET in detail.<sup>6</sup> FMS is operated and managed by the DOD. Countries participating in the program pay for defense articles and services at prices which recoup costs incurred by the US. This includes a fee (currently three percent) to cover the cost of administering the program. These include only government-to-government sales. Commercial sales are a part of security assistance but are limited to commercial export controls alone.

A common term often used with confusion is *technology transfer*. The phrase *technology transfer* can be used in two distinct ways. First, within the US National Laboratory structure, such as at Wright Laboratories at Wright-Patterson AFB, the term *technology transfer* means the movement of advance technologies from the labs or US

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<sup>5</sup> Defense Security Assistance Agency (DSAA) informational pamphlet, November 1993.

<sup>6</sup> IMET is where the US provides education and training to foreign nations on a grant basis. A common use of IMET in the US Air Force is when allied and foreign officers attend Squadron Officers School, Air Command and Staff College (ACSC), and Air War College at Maxwell AFB in Alabama. An example of IMET's success is that 26 officers who attended ACSC in the past, are currently Chief of Staff of their air forces.

military to the commercial sector.<sup>7</sup> Their concern is whether or not a project should be declassified or allowed to “spin-off.”<sup>8</sup> Second, people working in the arms transfer business use the term to describe the diffusion of advanced products or processes (military technologies) to foreign nations. The latter definition is the concern of this paper.

*Arms transfer* is the term used to describe the decision to move or the movement of defense articles or services from the US to a foreign nation. Whether or not that transfer actually takes place is described by the terms *arms agreement* and *arms delivery*. An *arms agreement* is the decision to sell or grant the transfer of defense articles and/or services to a foreign nation. Although an *agreement* may have been reached, *delivery* may not have taken place. An *arms delivery* is the actual movement of a defense article and/or associated services to the foreign nation.<sup>9</sup> The main confusion usually is in the argument over statistics. It is common for those opposed to selling American military hardware to quote *arms agreement* amounts in their statistics. Those who recognize that actual *arms deliveries* are much lower than *arms agreements* are quick to emphasize the loss in the DTIB because of the ineptness of American foreign policymakers who did not work to complete the agreement.

### **Preserve the DTIB**

The importance of preserving the DTIB can not be overstated. Without the capability to surge and rebuild American fighting forces, the US could be placing itself in

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<sup>7</sup> Telephonic interview with Jerry Heffner, National Air Intelligence Center, Wright-Patterson AFB, 10 Feb 95.

<sup>8</sup> John Alic, et al, *Beyond Spinoff: Military and Commercial Technologies in a Changing World* (Boston: Harvard Business School Press): 1992.

a perilous position if a future crisis were to evolve concerning US national security. By the year 2001, the Congressional Office of Technology Assessment estimates that up to 2.5 million experienced defense workers will have been laid off since the beginning of the defense drawdown.<sup>10</sup> This unprecedented drawdown of the US military has had a debilitating effect on the US DTIB.

### **Definition and Problem**

The Office of Technology Assessment defines the US DTIB as:

*... the combination of people, institutions, technological know-how, and facilities used to design, develop, manufacture, and maintain the weapons and supporting defense equipment needed to meet US national security objectives. This base has three broad components: research and development, production, and maintenance and repair, each of which includes public and private sector employees and facilities.<sup>11</sup>*

The Office of Technology Assessment goes on to say the DTIB is segmented into three tiers of firms; the prime contractors, the subcontractors, and the parts suppliers. The first tier, the large prime contractors or weapons suppliers (normally known as the defense contractors) are at the top. Examples of prime contractors include McDonnell-Douglas, manufacturer of the F-18 and F-15; and Lockheed/Martin Marietta, currently designing and developing the next advanced tactical fighter, the F-22. The second tier is made up of the major subcontractors (many of whom manufacture electronic devices, such as computers and radars). Examples of subcontractors include Texas Instruments, IBM, and Hughes Corporation. The lowest tier is made up of parts and raw material suppliers.

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<sup>9</sup> Over the years there have been many more arms agreements than actual deliveries. See DSAA Fiscal Year Series data - this is a DOD document published annually.

<sup>10</sup> Stephen Budiansky et. al., "Flying Blind Into a Turbulent Future," *US News and World Report* (December 7, 1992): 59.

<sup>11</sup> This definition can be found in the GAO report, *Redesigning Defense: Planning the Transition to the Future US Defense Industrial base* (July 1991).

These companies provide sub components of final products such as semiconductors or metal fabricators.

The US DTIB has been shrinking since 1985 and the greatest impact has been in DOD procurement dollars. In 1985, procurement funding was at an all time high of \$130 billion. By 1997, procurement spending is expected to bottom out at \$50 billion in 1993 money; a 60 percent decrease.<sup>12</sup> For example, instead of buying hundreds of aircraft, the Pentagon plans to buy just 20 fighters a year for the immediate future.<sup>13</sup>

Also, while basic military related research jumped 9 percent in 1993, overall money spent on research and development will decrease from \$43 billion to a projected \$28.2 billion in 1997.<sup>14</sup> This is a real 40 percent decrease and reflects a change in US procurement policy. Atwood states the new acquisition strategy will provide for research and development funding but not production funding.<sup>15</sup>

This new strategy has a strong downside since US defense firms have not been in the defense business to produce only one aircraft or weapon system. In the past, these firms have made very little money while competing for contracts. The money was made in the production phase. Unless a new economic strategy is developed to convince US defense firms it is economically viable to compete for developmental dollars, we can expect defense firms to leave the defense business or look for more lucrative markets.

How vulnerable is the DTIB? A number of defense industry executives and analysts have warned that after the drawdown the DTIB may not be able to respond to a

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<sup>12</sup> Bruce A. Smith, "US Firms Face Long Adjustment," *Aviation Week & Space Technology* (March 15, 1993) 48.

<sup>13</sup> Stephen Budiansky., "Back to the Arms Bazaar," *US News and World Report* (April 1, 1991): 20.

<sup>14</sup> Smith, 48.

future crisis as it has in the past. They question this new acquisition strategy and its ability to hold on to all levels of the DTIB. The fear is that one or all of the three tiers will be lost forever. Without a continuous demand for spare parts and supplies how will subcontractors and suppliers remain in business?

In a 1991 report to congress, DOD stated that free market forces, in general, will guide the restructuring of the industrial base. It also stated the ability to meet future national security needs will depend largely on the capacity of individual firms to shift from defense to commercial production, and then back again, as required.<sup>16</sup> This strategy is grossly inadequate and short-sighted. DOD has the responsibility and key resources for the defense of the United States. In the absence of DOD plans, there is no realistic way for free markets to fill the gap. It is unrealistic to suppose that private business firms will, on their own initiative, make expensive investments that amount to long-odds gambles on future DOD requirements and policies.<sup>17</sup>

In addition, many defense companies lack the experience and specialized knowledge to shift to commercial production and compete successfully in commercial markets. While prime contractors, such as McDonnell Douglas, have their hands in civilian or commercial production, specialized military equipment and supplies from some subcontractors and suppliers may have no comparable civilian market. In a 1992 survey, the former General Dynamics tank-building Land Systems Division, projected that following a break in production, all of its suppliers would suffer, and that 15 percent

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<sup>15</sup> Atwood, 58.

<sup>16</sup> Bingaman, 4.

<sup>17</sup> Ibid.

would actually go out of business.<sup>18</sup> The Joint Chiefs of Staff also voiced concerns about the effect of prime contractor retrenchment in a recent assessment of the nation's subcontractor capability stating, "the loss of sub-tier suppliers and manufacturers of subsystem components of larger systems is a threat to our ability to field state of the art weapons on a timely basis."<sup>19</sup>

Recognizing these overly ambitious expectations placed on the private sector, in May 1992, the DOD reaffirmed it would still rely on the free market to restructure the DTIB during this period of reduced defense spending. However, it did establish a process to identify critical manufacturing technologies and processes, products, and capabilities. The DOD will also monitor changes in the DTIB for potential loss of these critical items and take actions to preserve them when they may be lost and cannot be recovered to meet an emerging threat.<sup>20</sup> This policy guidance indicates DOD's recognition that free market forces alone may not ensure the viability of critical aspects of the DTIB. It is at least comforting to see the DOD recognizes that:

***The Defense Technological and Industrial  
Base (DTIB) must be Preserved***

*and the Private Sector, on its own  
initiative, can not ensure it.*

With these major themes in mind, Chapter two will now give you the historical framework for arms transfers in the United States.

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<sup>18</sup> Morrison, 24.

<sup>19</sup> Peter Grier, "What's Left of the Air Force Program?" *Air Force Magazine* (December 1994): 68.

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<sup>20</sup> Bingaman, 4.



## CHAPTER TWO

### Arms Transfers as an Instrument of US Foreign Policy

*Contrary to much popular opinion, the US government has managed this aspect (arms transfers) of its foreign policy and national security policy adequately. While the appropriateness of those conceptions of the national interest promoted by successive Republican or Democratic administrations since Franklin Roosevelt's administration is a continuing feature of the public debate in this country, each administration has managed its arms transfer programs consistent with its own definition of that national interest.*

*Dr. Michael D. Salomone*

The modern era of American arms transfers began with the Lend-Lease arrangements in 1941 for supplying arms to Great Britain and the former Soviet Union. For the next twenty years, arms transfers usually took the form of grant aid (conditional gifts) rather than with cash or credit sales. The US was the economic giant during and after World War II and employed its economic power by promoting national economic development and national and regional security.

The first significant arms transfer from the US government to another government in this era was the delivery of fifty destroyers to the United Kingdom in 1941. In exchange for these over-aged ships, America received British bases in the Atlantic.<sup>21</sup> This would be the start of a fifty year history in arms transfers. It would also institute a perennial debate over whether or not the US should be contributing to the spread of arms around the world or promoting arms control. These questions persist today.

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<sup>21</sup> In the Roosevelt Library at Hyde Park the original letter that made the transfer possible, signed by Admiral Harold R. Stark, the navy's chief at the time, can be viewed addressed to President Roosevelt. It certified that the destroyers were not essential to the US in view of the national security value of the bases obtained through the exchange.

In the years that have passed since the Roosevelt destroyer deal, security assistance - the government's transfer of military equipment and services to other countries - has been a persistent feature of US foreign relations. This chapter will demonstrate the US accomplishes arms transfers with a purposeful focus due to reasonable foreign policy considerations.

### **Overview and Argument**

Arms transfer policy since 1945 can be broken into four periods. These four periods make it apparent that US arms transfer policy has had a regional focus. That focus shifts based on the interests of US policy makers and the foreign policy challenges of the day. The regional emphasis of transfer policy changed from Europe, to East Asia and the Pacific region, to the Middle East concurrent with the rearmament of NATO, the Vietnam Conflict, and the 1973 Middle East War and aftermath respectively.<sup>22</sup>

A fourth period, with an emphasis on a two Major Regional Conflicts (MRC) strategy is exacerbated by the post Cold War world. This era has a dual foreign policy perspective. One perspective continues arms transfers to the Middle East striving for regional stability. A second perspective focuses on East Asia and the Pacific due to security interests involving North and South Korea. Again, when the security interests of the US change or shift around the world so does US arms transfer policy. In February of 1995, President Clinton released "A National Security Strategy of Engagement and

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<sup>22</sup> East Asia and the Pacific include the following recipients: Australia, Brunei, Cambodia, China, Fiji, French Polynesia, Hong Kong, Indochina, Indonesia, Japan, Gilbert Islands, Korea, Laos, Macau, Malaysia, Mongolia, Myanmar, Nauru, New Caladonia, New Zealand, Niue, Norfolk Island, Papua New Guinea, Pitcairn, Philippines, Singapore, Solomon Islands, Taiwan, Thailand, Tokelau, Tonga, Tuvalu, Vanuatu, Vietnam, and the Western Samoa. The Near East and South Asia includes these recipients: Afghanistan, Algeria, Bahrain, Bangladesh, Bhutan, Egypt, India, Iran, Iraq, Israel, Jordan, Kuwait,

Enlargement.”<sup>23</sup> It asserts, “The focus of our (US) planning for major theater conflict is on deterring and, if necessary, fighting and defeating aggression by potentially hostile regional powers, such as *North Korea, Iran or Iraq*.”<sup>24</sup>

This policy will continue the tradition of the past fifty years. Arms transfers are and will continue to be an instrument of foreign policy based on US national security interests and the foreign policy challenges of the period.

#### NATO Rearmament, 1945-1960<sup>25</sup>

The end of World War II, although a great moment in US history, marked the beginning of a world security environment that would affect US arms transfers for nearly fifty years. That security environment was the “Cold War.” The US was the only major power to emerge from World War II militarily and economically intact. In the next 15 years, Presidents Truman and Eisenhower realized that from the ashes and debris in Europe arose a new threat to world peace and stability. That security threat would be communism, and the foreign policy would be containment.

Grant aid in the Cold War began with Greece and Turkey in 1946 and in Western Europe in 1948. By then, the Mutual Defense Assistance Program, authorized by Congress, had been designed to accomplish arms transfers on a grant basis for the NATO allies of the US. The goal of this program was to strengthen NATO military forces

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Lebanon, Libya, Maldives, Morocco, Nepal, Oman, Pakistan, Qatar, Saudi Arabia, Sri Lanka, Syria, Tunisia, United Arab Emirates, and Yemen.

<sup>23</sup> William Clinton, *A National Security Strategy of Engagement and Enlargement*, The White House, February 1995.

<sup>24</sup> Ibid., 9. Emphasis added by author.

<sup>25</sup> It is essential to understand that NATO arms transfers did in no way end in 1960 because of the start of the Vietnam War. Containing the spread of the Soviet threat was a consistent theme until the demise of the former Soviet Union in 1989. Arms transfers remained fairly constant to Europe until that demise. My point here is the regional emphasis that took place post World War II due to that perceived threat.

without requiring NATO countries to postpone or abandon economic recovery efforts that had been established under the Marshall Plan.<sup>26</sup>

This program went hand in hand with the Joint Strategic Operations Plan (JSOP), a policy planning instrument used extensively during the 1950's and 1960's. The JSOP consisted of planning documents that related military requirements to capabilities. It described the military threat as the Soviet bloc. It then listed the required capabilities of the US and each of the NATO countries in order to meet that threat. The document described what each country could do once they had received US arms in order to supplement US forces in theater. In other words, this document justified the transfer of arms to NATO allies in order that, as a whole, both NATO and the US would be able to meet a Soviet conventional threat.

This method of deciding who should receive arms transfers, and what equipment and services they should get, continually focused the Truman, Eisenhower, and Kennedy administrations. The JSOP was an institutional process which pushed for the continuing transfer of arms based on threat and capability. The foreign policy implications of these almost standard operating procedures is evident in DOD data. Beginning in 1950, the DOD began tracking arms agreements and deliveries on a fiscal basis. That data is now available in a one-source document currently updated by the Defense Security Assistance Agency.<sup>27</sup>

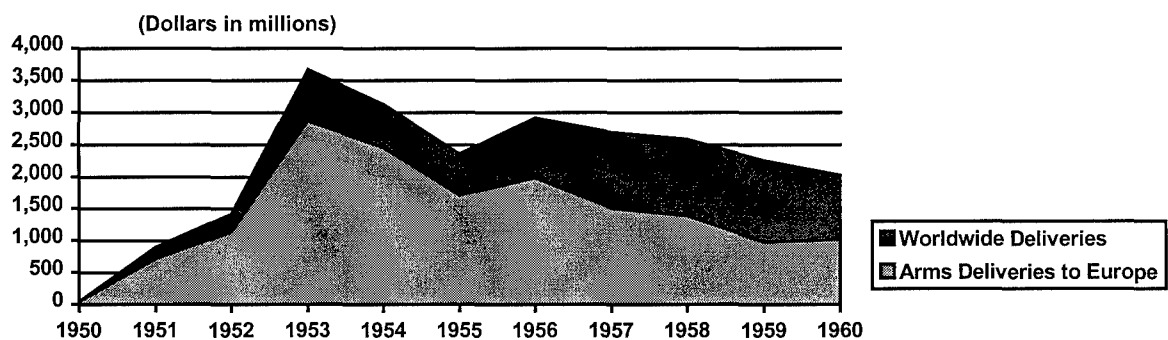
Figure 2.1 shows actual deliveries of military equipment and services in millions of dollars worldwide and to Europe. This chart numerically and graphically demonstrates

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<sup>26</sup> Salomone, 4.

<sup>27</sup> Department of Defense, *Defense Security Assistance Agency*, Fiscal Year Series dated 30 September 93.

how the majority of arms transfers were in support of Western Europe. In 1953, at the end of the Korean Conflict, nearly 70 percent of all US arms transfers (\$2.6 of \$3.7 billion) were still to Europe. Although by 1960 this amount would decrease to just over \$1 billion, it would still be over half of all arms transfers made by the US worldwide. This demonstrates that even though the US military was involved in a crisis in the East Asia and Pacific region (The Korean War), the majority of arms transfers went where US policymakers believed the clearest threat to US national security interests were. In 1953, US foreign policy was primarily focused on containing the Soviet conventional threat in Europe, not in Korea.



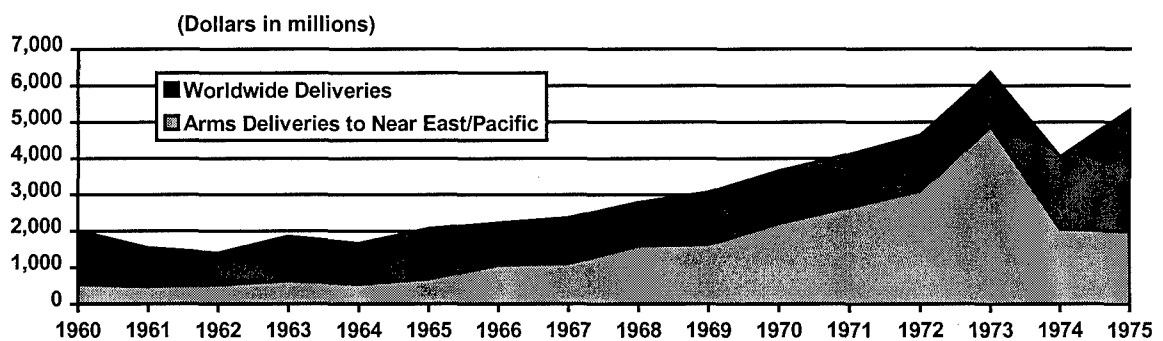
US Arms Transfers - Focus on Europe, 1950-1960  
 Fig 2.1 (Source - DOD)

### The Vietnam Era, 1960-1973

This second period of interest took up much of the foreign policy decisionmaking time of the administrations of Presidents Kennedy, Johnson, and Nixon. During this phase in US arms transfer history, the security assistance community developed two distinct programs, Military Assistance Service Fund (MASF) and Excess Military Assistance Service Funds (EXMASF), to specifically handle the Vietnam Conflict. Although other security assistance programs were used, these two programs were

developed and expanded in order to grant arms transfers quickly to those nations involved in Vietnam. Between FY65 and FY75, the countries of Korea, Laos, Philippines, Thailand, and Vietnam received equipment and services valued at more than \$18 billion dollars.<sup>28</sup> This figure only includes those items delivered through the MASF and EXMASF programs. These deliveries constituted more than 35 percent of all US military deliveries worldwide.

The impact of MASF and other grant programs is very similar to the rearmament of Europe in the 1950s. US interests were highly focused on this region of the world. The containment of communism was still at the forefront of strategic thought although containment was expanded to more peripheral areas such as Vietnam. Europe, although still receiving arms transfers to keep NATO strong, is reduced in importance while East Asia and the Pacific became significant to both political and military leaders. Figure 2.2 represents all US arms deliveries to East Asia and the Pacific region from 1960 - 1975.<sup>29</sup>



**US Arms Transfers - Focus on East Asia and the Pacific region 1960-1975**  
**Fig 2.2 (Source - DOD)**

<sup>28</sup> Department of Defense, *DSAA Fiscal Year Series*.

<sup>29</sup> Again, arms *deliveries* are used to show the actual amount of weapon systems and equipment that got to that region. By comparing total worldwide deliveries to those just in the East Asian and Pacific region it is easy to show the level of effort that was placed in this region.

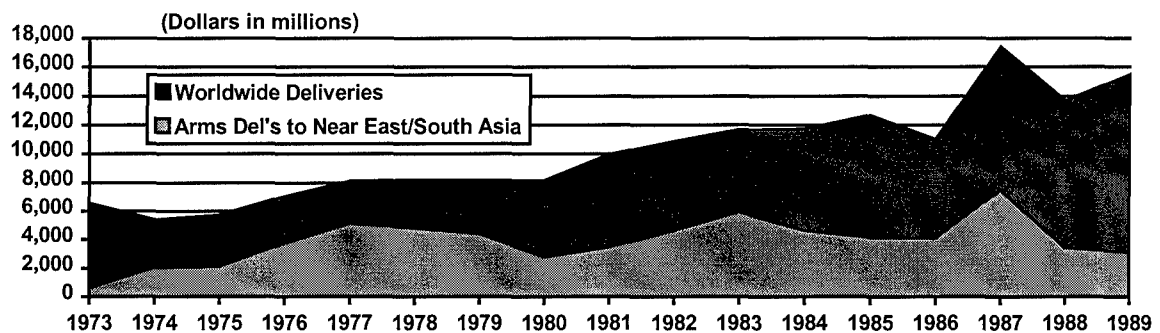
Arms transfers increased as America's involvement in the war increased. In 1965, the US was beginning its first major air campaign -- Rolling Thunder. With the start of that campaign came a noticeable increase in arms deliveries to the region. By 1973, Presidents Johnson and Nixon had increased US involvement by increasing US personnel and equipment and, as DSAA data shows, also the amount of arms deliveries to East Asia and the Pacific region. In 1966, the first deliveries through the MASF program totaled \$469 million worth of equipment and training. By 1973, the US was spending \$4.3 billion per year on this one program. By the time the US would pull out of Vietnam and dismantle the MASF program in 1975, the US had spent over \$18 billion on arms transfers (military equipment and services) in the form of grants to foreign countries in the region.

Again, DOD figures numerically and graphically show that arms transfers were used as an instrument of foreign policy and that foreign policy was based on US national security issues of the day.

#### **The Middle East Era, 1973-1989**

The Near East and South Asia did not receive much in the way of security assistance until the 1973 Arab/Israeli War when foreign military sales (FMS) deliveries rose dramatically. From FY66 to FY70 deliveries remained well below \$500 million, but began to expand rapidly by 1974. Deliveries to this part of the world did not exceed \$1 billion until then, when \$1.8 billion in FMS were delivered. From FY74 through FY80 FMS deliveries ranged between \$2 billion and \$5 billion. For the ten year period 1971 through 1980, FMS deliveries with the Near East and South Asia constituted the bulk of FMS deliveries. In that period, over \$136 billion in *agreements* were negotiated, of

which over \$88.5 billion in *agreements* were with Near East countries. This represented 65 percent of all FMS *agreements*. In *deliveries*, over \$25 billion in FMS equipment and services were delivered to the Near East and South Asia. Again, this represents over 50 percent of all FMS *deliveries* throughout the world. Figure 2.3 numerically and graphically demonstrates this point.



**US Arms Transfers - Focus on the Near East and South Asia 1973-1989**

**Fig 2.3 (Source - DOD)**

A unique feature about this era is the start of the commercial sales side of security assistance. Until 1970, arms transferred from the US were only in the form of government-to-government sales or grants. However, in FY71, US commercial firms who had applied for and acquired the necessary licenses were permitted to negotiate directly with defense industries or ministries of other countries. In the first five years, worldwide commercial sales ranged between \$500 and \$900 million. The Near East and South Asia region received about 25 percent of those sales. From 1976 until 1983 these sales remained consistent: worldwide sales averaged \$2 billion, while the Near East and South Asia region received just under \$1 billion (around 50 percent of all commercial sales). After 1983, commercial sales doubled, sometimes tripling, with worldwide sales averaging \$5 billion a year. The Near East remained consistent in commercial sales



averaging around \$1 billion a year from 1976 until 1989.

Another unique feature about this era and region is the US relationship with Israel. Although FMS was the primary vehicle for most transfers to the Near East, one of the largest recipients of US military equipment and services, Israel, also received over \$16 billion in foreign military financing (FMF) waivers, finance guarantees or direct financing.

The DOD has a program that insures individuals, corporations, and financial institutions against credit risks and nonpayment by a recipient nation for equipment or services purchased through FMS channels. In the Direct Credit program, credit is provided through funds appropriated by Congress. This program was developed to be used by developing countries, but it has been almost exclusively used to provide credit to Israel. The funds are not specifically designated by the Congress for individual recipients; rather, the Congress places a ceiling for the sales credit programs. The exception again is Israel. Through waived credit, the US government has absolved Israel of over \$1 billion a year over the period 1974 to 1989 (since 1984 the actual figure has been over \$1.4 billion). In a very real sense, the US government is using "grant assistance" in its FMS dealing with Israel.

These "special programs" for Israel are tied directly to the foreign policy interests of the US. These commitments, especially to Israel, Saudi Arabia and Iran (until 1979) were supported by both the Republican and Democratic Administrations of Presidents Ford, Carter and Reagan, respectively.

#### **Post Cold War Period, 1989-1993**

The period between 1989 and 1993 reflects the uncertainty of the post Cold War world. The US continues to transition from a bipolar-focused foreign policy to a more flexible policy based on regional stability and US enduring values. The underlying theme of the Cold War provided the necessary policy tools to send arms around the world. In the name of controlling Soviet expansionism, the US could negotiate arms *agreements* to any country it felt worthy of controlling the weapons. With the Cold War over, the US has developed a two MRC strategy in an attempt to focus both foreign policy and military strategy.<sup>30</sup> For the first time in arms transfer history, we see a split on where the majority of arms should be delivered. President Clinton's most recent National Security Strategy document explains why there is a split by mentioning the perceived threats. They are North Korea, Iran and Iraq.<sup>31</sup>

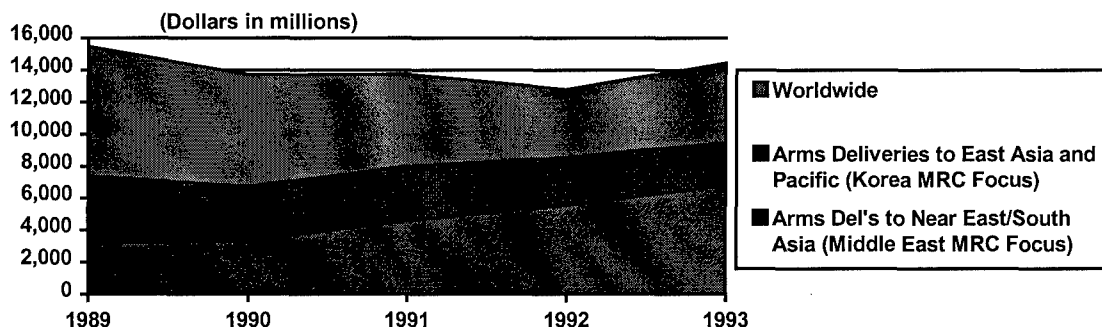
DOD data (Figure 2.4) shows the split in foreign policy direction in relation to arms deliveries and supports the national security interest focus of the Bush and Clinton Administrations since 1989. Arms transfers are split between the two MRC's. The Near East and South Asia are still receiving a great deal of all arms deliveries as the US strives for regional stability in the Middle East. For example, more than half of all security assistance in 1993 was in the form of arms agreements with Israel, Saudi Arabia, Kuwait, and Egypt (nearly \$7 billion of \$14.3 billion in arms deliveries).<sup>32</sup> This is consistent with the decisions made by the Bush Administration in 1990. The Gulf War and continuing UN sanctions on Iraq are two reasons the US foreign policy focus remains on the region.

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<sup>30</sup> MRC stands for Major Regional Conflicts or Contingencies - President Clinton's Administration has fielded a military force structure to help defeat aggression in two MRC's nearly simultaneously. See President Clinton's, "A National Security Strategy of Engagement and Enlargement," page 9 for a discussion on the two MRC strategy.

Others include the Arab/Israeli question, containing Iran, the Israel/PLO question and, of course, the ever important flow of oil from the Persian Gulf.

The second major region of concern for the Clinton Administration is where North Korea resides, East Asia and the Pacific Region. The US has a major commitment to the South Korean government and will continue to center a great deal of attention on this region. One of President Clinton's major policy statements has been on, "Combating the spread and use of weapons of mass destruction and missiles."<sup>33</sup> The recent negotiations concerning North Korea's attempt at building nuclear reactors, that could help in the development of fuel for nuclear weapons, has placed an increased emphasis on the region.



**US Arms Transfers - Focus on 2 MRC Strategy, 1989-1993**  
**Fig 2.4 (Source - DOD)**

Other reasons for US interest are identified in the President's National Security Strategy. "East Asia is a region of growing importance for US security and prosperity. Now more than ever, security, open markets, and democracy go hand in hand in the US's

<sup>31</sup> Clinton, 9.

<sup>32</sup> Department of Defense, *DSAA Fiscal Years Series*.

<sup>33</sup> Clinton, 13.

approach to this dynamic region.”<sup>34</sup> Security of the region is President Clinton’s number one goal. Dealing economically with countries such as Japan, China, and the fast growing Association of Southeast Asian Nations is second. The promotion of democracy and human rights is a close third. As figure 2.4 shows, nearly 25 percent of all US arms *deliveries* went to East Asia and the Pacific region. These transfers have remained consistent with between \$3 billion and \$4 billion in arms deliveries per year arriving in the region. President Clinton’s three major foreign policy considerations (security, economics, and democracy) allow for the use of US arms transfers as an important instrument of foreign policy.

### **Conclusion**

This chapter has demonstrated that US arms transfers are used as an instrument of foreign policy based US security interests. These interests are decided upon by the focused decisions of presidents and their administrations as they react to the foreign policy challenges of the day.

**Arms Transfers  
are used as  
An Instrument of Foreign Policy**  
*Based on US National Security Interests and the  
Foreign Policy Challenges of the Day*

There is a great deal of criticism anytime anyone recommends increasing arms sales to foreign nations. So before this recommendation is made in chapter four, it is

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<sup>34</sup> Ibid, 28.

important to discuss the control of advance military technologies and the decisionmaking process used to decide which arms will be actually transferred. That will be the discussion of my next chapter --“The Labyrinth of Control.”

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Figure 2.1, 2.2, 2.3, 2.4 - Data from Department of Defense, DSAA Fiscal Years Series, dated 30 September 1993.

## CHAPTER THREE

### The Labyrinth of Control

*It is the "sense of the Congress" that the President should  
"maintain adherence to a policy of restraint in conventional arms transfers."*

*American policy is "to encourage regional arms control and  
disarmament agreements and to discourage arms races"*

#### Arms Export Control Act Section 1

There is a great fear United States arms transfer policy lacks control and allows valuable military technologies to quickly end up in foreign hands. Recent sales of F-15E's to both Israel and Saudi Arabia are held up as examples of this diffusion of military technology.<sup>35</sup> In reality, the control measures established by public law, Presidential policy, congressional actions, and the US military establishment are more than adequate to preserve America's technological lead. This process is complex and can be excessive at times. There is a "labyrinth of controls" on conventional arms transfers.

The purpose of this chapter is to demonstrate there is more than adequate control on the transfer of advanced military technologies to foreign nations. It will describe the decisionmaking process the President, the Department of State (DOS), the Department of Defense (DOD), and other government agencies use in controlling arms transfers.

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<sup>35</sup> The House Foreign Affairs Committee consistently asks for testimony from arms transfer experts regarding the sale of fighter aircraft to foreign nations. Testimony was given by the Assistant Secretary of Defense for International Security Affairs on 23 September 1992 regarding the sale of the F-15E to Saudi Arabia. This testimony was reprinted by the DISAM Journal in the Winter 1992-1993 issue on pages 49-52. There is an excellent discussion on the export version of the F-15E (F-15XP) and how it is no where close to the technology found in the F-15E "Strike Eagle" as flown by the US Air Force. See page 50.

The arms transfer control process is important for three reasons. First, as already described in chapter two, the US government has continuously relied upon arms transfers as an instrument of foreign policy. Second, considerable popular and political discussion assumes there are few if any controls on US arms transfers, when in fact, there is a complex control process to ensure the US maintains its technological lead. Finally, if the DTIB is to keep its technological lead, these controls must be eased or streamlined so that production lines and processes may be maintained. This final reason will be the discussion of chapter four.

### **The Arms Transfer Process**

In 1983, Dr. Michael D. Salomone published a book titled *The Reluctant Supplier*.<sup>36</sup> In that book, Dr. Salomone describes the six functions of arms sales decisionmaking. These six functions have not changed. They are (1) recognition of a recipient's needs and wants; (2) initial review of a government's request for information; (3) policy review of a purchase request; (4) negotiation and development of an agreement; (5) execution of an agreement; and (6) "feedback" and evaluation concerning the recipient use of the assistance received.<sup>37</sup> From the identification of the need or want to the actual delivery of a weapon system, an elaborate and complex approval process lives and breathes within the multitude of US government actors handling arms transfers.

It is relevant to note that all public law and policy guiding the arms transfer process was written during the Cold War. The Arms Export Control Act (AECA) of 1976, and the Foreign Assistance Act of 1961, as amended, allow the President to

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<sup>36</sup> Michael D. Salomone, *The Reluctant Supplier: US Decisionmaking For Arms Sales* (Mass: Oelgeschlager, Gunn & Hain, Publishers, Inc., 1983): 85.

delegate the authority for arms transfer policy to the DOS. In order to sell arms abroad, US defense firms require a munitions license. This license can only be granted by the State Department. Under the AECA, US firms and military services are prohibited from marketing US arms to foreign governments or industries unless that government specifically requests information or a purchase. These laws all push for a "policy of restraint in arms transfers" and "encourage regional arms control while discouraging arms races."

Also, appropriation and authorization acts guide DOD and DOS agencies in dealing with the security assistance question. For example the House and Senate Armed Services Committees will receive "Program Content Notification" 15 days in advance of a commitment to loan or grant funds for Major Defense Equipment. This report must be submitted by the DOD due to the Foreign Assistance and Related Programs Appropriations Act.

Many actors are involved in the six basic decisionmaking functions of security assistance. Collectively these actors constitute a system the US government uses to handle this complex problem. It should be recognized that the system is dynamic and changes with each request depending on the equipment or service requested, which country is doing the requesting, and what level of political attention that request may or may not be getting. It is, however, a process that can be understood.

The principle field personnel in countries that receive requests for information on the purchase of military equipment are ambassadors and their political counselors; defense attaches and security assistance officers. In addition, industries may send

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<sup>37</sup> Ibid.



specialists to provide advice or temporary services. At the regional level, security assistance staffs at the unified commands, (for example European Command and Pacific Command) monitor and support country security assistance teams.

Within the Department of State, a number of officials are involved in arms transfers. The Secretary of State supervises and provides general direction over foreign assistance issues. His department determines if there will be a program and, if so, its size, scope; and when it can take place. The primary contacts within the State Department for arms transfer issues rests with the Assistant Secretary of State for Political-Military Affairs and the Under Secretary of State for International Security Affairs.<sup>38</sup>

The primary day-to-day workers on security assistance and arms transfers within the Political-Military Affairs branch are the Office of Defense Relations and Security Assistance, which approves and monitors all government-to-government sales, and the Office of Defense Trade Controls, which is responsible for granting US industries munitions licenses before any transfer can be approved. None of these agencies make decisions alone or in the dark; they frequently request specific studies and analysis from the many regional desks within the State Department. These regional bureaus may, in turn, request an opinion from the security assistance officer or ambassador within the requesting country.

By far the majority of actors in the arms transfer arena are in Department of Defense. Although the DOD's role is as executor and implementor of State Department policy, that role is not insignificant. The Secretary of Defense sometimes meets with the

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<sup>38</sup> Until 1990, these agencies were called Assistant Secretary for Political-Military Affairs and Under Secretary of State for Security Assistance, Science and Technology, respectively.

President or the Secretary of State over security assistance matters. More immediate policy decisions are generally made by the Assistant Secretary of Defense for International Security Affairs (ISA). The ISA office is broken down into regional offices and desks considering, primarily, the political and military implications of each transfer.

The primary agency within DOD for directing and supervising the execution of security assistance programs is the Defense Security Assistance Agency (DSAA). DSAA is the focal point for all communication within the DOD regarding government-to-government arms transfers. Commercial sales are handled by the Office of Defense Trade Controls in the State Department. However, if a major weapon system is requested through commercial channels, the DOS will ask for DOD advice in regards to the ramification of that sale. If a technology assessment is required, the Defense Technology Security Administration (DTSA) will make a determination on whether or not advanced technologies are being risked by the sale or transfer of that product. DTSA has this role whether it is a commercial or government-to-government transfer.

The Joint Chiefs of Staff also have an input that shapes arms export policy. Joint force commanders and planners have an obvious interest in the balance of forces in regions where they may be called to conduct operations.<sup>39</sup> The Joint Staff, specifically the J-5 Planning Group, works hand-in-hand with the unified commanders and their staffs to assess the implication of a proposed sale or transfer. When speaking with members of the Joint Staff, however, they revealed they only concern themselves with one to two

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<sup>39</sup> Sumner Bensen, "Shaping Arms Export Policy," *Joint Force Quarterly*, Autumn/winter 1994-1995. 84-91. This is an excellent article on the role of Joint Force Commanders and their staffs in the arms export business.

percent of all security assistance cases.<sup>40</sup> Otherwise, the Joint Staff relies on DSAA and the military departments for most arms transfers. Their main role is to ensure the Chairman is informed of major arms transfer proposals and is not surprised by a controversial sale.<sup>41</sup>

The individual services--Army, Navy, and Air Force--have their own security assistance divisions. The Army has the US Army Security Assistance Command (USASAC), the Navy has its International Programs Office (Navy IPO), and the Air Force has its International Affairs directorate under the Secretary of the Air Force (SAF/IA). Each works within its own system as the primary point of contact for certain weapon systems. For example, if a tank is requested for purchase, USASAC will be asked to assess the ramifications of that sale. Missiles are under the auspices of the Navy, so the Navy IPO would become the lead agent to support or advise on that transfer. The request for information or purchase of an F-16 or F-15 would obviously fall into the hands of SAF/IA.

Although the DOD and DOS are the primary players in most arms transfers, there are many other agencies that may become involved. The Treasury Department, the Central Intelligence Agency, the Office for Management and Budget are less directly involved but can have an important role. The General Accounting Office frequently reviews the process, as do the staffs of the House and Senate Armed Services Committees. In some politically sensitive cases, the President or the Congress may take a central role in the arms transfer process.

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<sup>40</sup> Cases concerning advanced conventional weapons such as Stinger missiles, night vision goggles, precision guided munitions, standoff weapons, and missiles.

## **The Question of Disclosure**

The act of revealing or uncovering controlled military information is referred to as disclosure. The disclosure of sensitive or advanced military technologies is the prime reason there are controls in arms transfers. A common theme from president to president is maintenance of the US technological lead. Preserving this technological lead is the common excuse for an arms transfer disapproval. The question of disclosure is what keeps every agency involved in each arms transfer decision.

Controlled military information may be classified or unclassified. This information can be disclosed to foreign nations and governments in many ways including:

- Commercial or government sales
- Licensed production
- Cooperative research and development programs
- Discussions between US and Foreign nationals
- Foreign visits to US installations
- Professional meetings or symposiums which include foreign nationals
- Flights/rides in US aircraft or military equipment by foreign nationals

Because of the many ways controlled military information can be disclosed, the US government has come up with numerous written documents that provide guidance and direction on the release of military information. Some are general; other provide specific release guidance. They include:

Foreign Assistance Act of 1961, as amended  
Arms Export Control Act of 1976, as amended  
International Traffic in Arms Regulations  
DOD implementing directives and OSD policies  
The National Disclosure Policy regulations  
Political and military baselines

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<sup>41</sup> J-5 staff members, The Pentagon, Interview with author on 4 March 95.

The last two on this list can demonstrate how the process works and the level of attention that each major arms transfer receives.

The number of requests for US military equipment usually exceed 10,000 per year.<sup>42</sup> Within the Services, specifically the Air Force and the Navy, baselines are developed to handle this large number of requests and answer the question on whether or not a transfer of military arms should take place. These documents are a proactive way of dealing with requests for information or purchase before a request comes in. They are developed by the lead agent for a particular weapons system. For example, SAF/IA is responsible for developing the baselines for USAF fighter aircraft. This package is coordinated on throughout the air force staff. SAF/IA sends a draft baseline to SAF/AQ, AF/XO, AF/LG, AF/IN, and finally to the Chief of Staff for approval. Some baselines are developed by more than one Service when there is overlapping interests.

For example, a recent draft of the 1995 fighter weapons baseline has been approved by the Chief of Naval Operations (CNO) and the Chief of Staff of the Air Force (CSAF). Its purpose is stated as; (1) establish export configurations which preserve the US qualitative edge in its tactical munitions; (2) insure US interoperability with export versions; (3) protect critical US technologies; and (4) present a historical view of conventional weapons transfers. Its main goal is to gain CNO and CSAF approval for transfers of export versions for NATO and special treaty nations and establish USAF and USN positions on the release of munitions to all nations. It is seen as a proactive way to deal with the cumbersome problem of numerous arms requests. Staff officers need only refer to the pre-approved baseline to determine if a future request has a chance at

approval.

Baselines speed up the workload but are predisposed to be conservative. No mid-career military officer (the primary staffers on these decisions) wants to be responsible for releasing a US technology or weapon system to a foreign country only to find out he shouldn't have. An exception to these proactive baselines can be made by the National Disclosure Policy Committee (NDPC).

The NDPC is an interagency working group that is the focal point for disclosure policy exceptions. If a request is made by a country for military equipment that it is not authorized by a military baseline, it is disapproved. If the request is made again or with some political clout, an exception can be authorized. This exception can only be approved by the NDPC.

The committee is broad based with members from DOS, Commerce, the CIA, the Joint Staff, and DOD. DOD members include the Arms Control and Disarmament Agency, the Army, Navy, and Air Force, ISA, Policy, Defense Intelligence Agency, Ballistic Missile Defense Organization, and a few others. There are even observers from NASA and the National Security Agency.

The Committee is given a reasonable amount of time (it could take months) from notification of the exception to study the case and render their decision on the request. If there is a difference of opinion, the committee may meet in an attempt to come to a consensus. If a consensus can not be reached, a decision is made by the Under Secretary of Defense for Policy. Each member has 10 days from that decision to attempt to change

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<sup>42</sup> Ibid.

the Policy Secretary's mind.<sup>43</sup> That decision is then submitted to the Secretary of Defense where he will approve or overturn the decision and pass it on to the State Department. In general, the concern of this committee is to assure advanced technological products and processes are not diffused to foreign nations.

### **An Example within the Labyrinth**

A limitation of this paper is that it is unable to discuss any one arms transfer in its entirety because it would make the paper classified. Although a description of the process itself is not classified, the reason a certain country did or did not receive approval for a transfer is considered sensitive information. Figure 3.1 will be used to walk the reader through a hypothetical arms sale.

For example, a Middle East country would like to purchase a squadron of US McDonnell Douglas F-15E's for its Air Force. How would that country put its request in? and How would the US government decide on whether or not to accomplish the sale?

#### ***(1) Recognition of a recipient's needs and wants:***

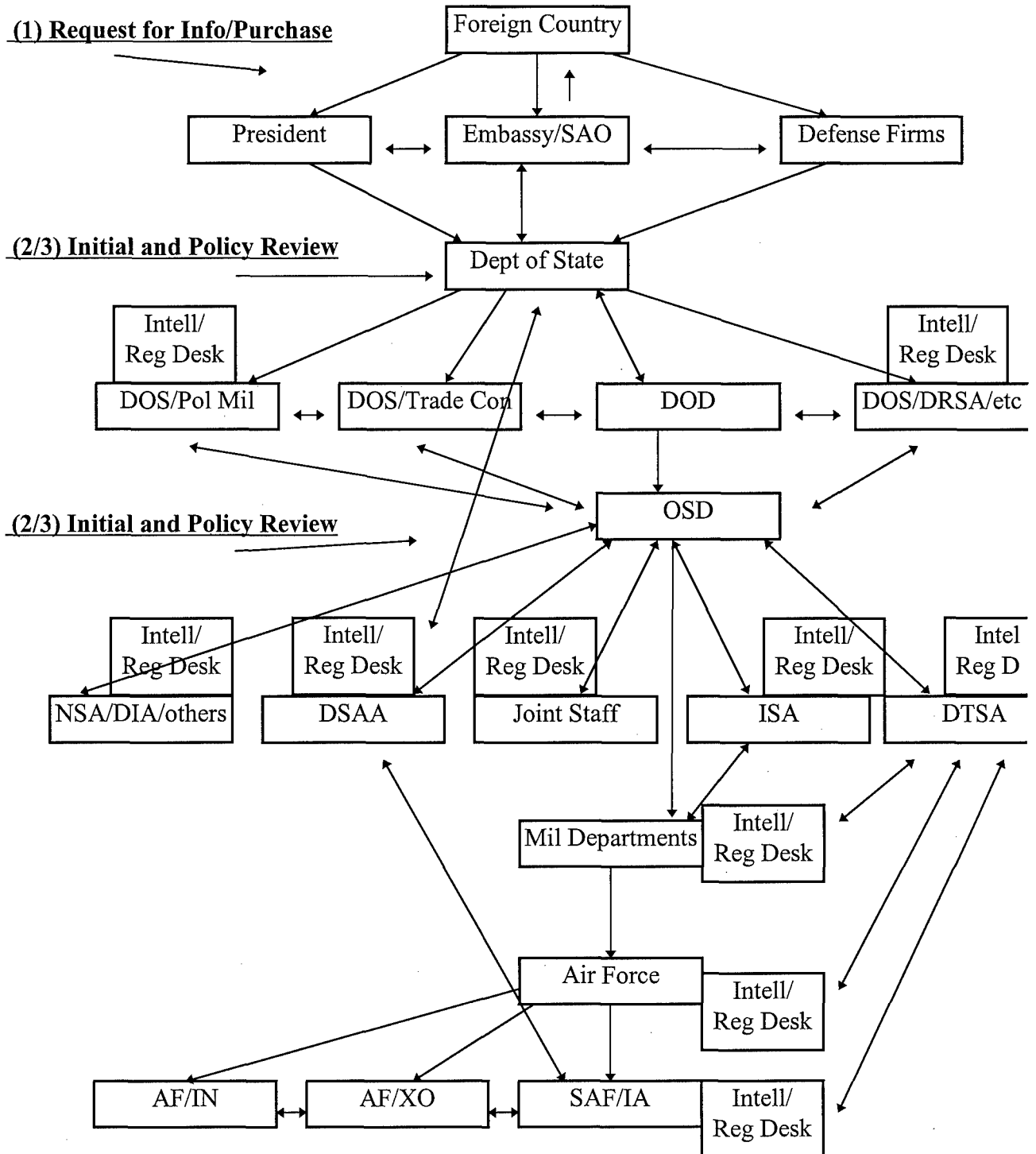
Recognition of a government's needs and wants require two things. First, elements of the US government must receive and forward the request to the appropriate policymakers in Washington. Second, there must be an assessment made of whether or not the requesting country could handle the equipment and its affect on regional stability.

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<sup>43</sup> Interview with NDPC member who wished his name to be withheld.

# ***"The Labyrinth of Control"***

(figure 3.1)





The foreign country has generally three ways in which to place his request for purchase. First, a direct request could be made to the President or the Secretary of State when on or when hosting an official visit. Second, and more frequently, host government officials may ask security assistance officers, defense attaches, or the in-country US ambassador about the weapon system. Finally, the host government or military may request to purchase the airplanes from a US commercial representative (US defense firm) who may be in-country. Regardless of the type of request for information or purchase, an initial review and policy review must be accomplished.

***(2/3) Initial and policy review of the government's request for purchase***

Prior approval of arms transfers varies with the type of country doing the requesting and the type of equipment being requested. The official request, either in the form of a written document or received orally by a US government representative (the ambassador, for example), is handed over to the DOS for initial review. Both FMS and commercial sales are subject to this process. In this case, since it is a request for significant combat equipment (F-15E's), an FMS review would be accomplished.

This review can be completed in two ways depending on whether or not the country is considered a close ally or not. If the request comes from other than a close ally, the request must go through all the major State department agencies (Assistant Secretary of State for Political-Military Affairs, Office of Defense Trade Control, and the Office of Defense Relations and Security Assistance and their regional and country desks).

If the country requesting the purchase is a close ally, then the communication channels would be much quicker. Sales to these countries are considered less controversial; thus, the decision process is rather routine. However, in our example, a Middle East country is requesting Major Defense Equipment (MDE) that will be of significant value so the process will be as cumbersome as a non-ally. MDE is defined as "any item of significant combat equipment on the US Munitions List<sup>44</sup> having a nonrecurring research and development cost of more than \$50 million or a total production cost of more than \$200 million." Subdivisions are made into dollar groups describing arms transfers as (1) less than \$7 million; (2) \$7 million to \$25 million; and (3) over \$25 million.<sup>45</sup>

Separate categories of transfers have been designed because of congressional desire to have an optional voice in significant transfers and the US's desire to differentiate among recipients. Congress and most agencies of the federal government want to have control. For example, any international agreement which commits the US government to the sale of defense articles or services for \$50 million or more, or any MDE of \$14 million or more, will be reported by DSAA to the Congress under the terms

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<sup>44</sup> The Arms Export Control Act (22 USC 2778(a) and 2794(7)) provides that the President shall designate articles and services that shall be deemed to be defense articles and defense services for the purposes of review and control. Such designations are made a part of a list entitled the US Munitions List. This list is formed with consultation between the DOS, DOD, Commerce, and other agencies as may be appropriate. An article or service gets on the list if it (1) is specifically designed, developed, configured, adapted, or modified for military or intelligence application, and (2) does not have significant civilian application, and (3) does not have the performance capacity, technology and function equivalent to those of an article or services used for civil applications; or (4) has significant military or intelligence applicability such that control under section 38 of the AECA is necessary to further world peace and the security and foreign policy of the US.

<sup>45</sup> PL95-105, Arms Export Control Act (Foreign Relations Authorization Act, Fiscal Year 1978, H.R. 6689, 91 Stat. 844 to 846, approved August 17, 1977) section 47.

of the AECA, section 36(b) prior to conclusion of the agreement.<sup>46</sup>

While the State department begins its review process, the DOD will be notified of the request and all the agencies under DOD in figure 3.1 will begin initial and policy review. As can be seen from the diagram, each agency, whether in DOS or DOD, has its own set of regional and country intelligence desks to refer to for assessment of the requesting country. Remembering that other agencies such as the CIA will be asked for an assessment, you can see that policy reviewers will be inundated with intelligence information on the requesting country. In an example like this one, where a country is requesting F-15Es, DSAA, ISA and the Air Force's SAF/IA would be primary players.

The SAF/IA office would be the primary point of contact for developing a package for this decision. This is where the first look at the military baselines discussed earlier takes place. Generally, in an other than close ally request, the baseline may not initially approve the request. Again, it is important to remember that baselines are set up to be proactive for decisionmaking. They are conservative and it is common for initial requests to be stalled.<sup>47</sup> SAF/IA, along with DSAA will become the coordinating agency as they build position papers on the proposed sale.

In State, the initial and policy review will be accomplished by the Pol-Mil regional desk. Specialized offices in the Treasury Department, Commerce, the CIA, the Office of Management and Budget and others may all be requested for their input. Back in DOD, DSAA and SAF/IA will complete their assessment with help from Air Force

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<sup>46</sup> DOD 5105.38-M, section 140103 (b), page 1401-2. These totals are authorized by Section 36(b)(1) of the Arms Export Control Act.

Intelligence, Operations, and the Joint Staff. In a case, such as the sale of an entire squadron of advance aircraft like the F-15E, the Joint Staff would also assess the regional stability implications of the sale with the unified commander and his staff.

Finally, a position paper would be sent to the Assistant Secretary of Defense for International Security Affairs who will forward his opinion to the State Department. The State Department would then complete its review and either approve or disapprove the sale. If it was a politically sensitive arms transfer request, the Secretary of State or the President himself may make the final decision.

#### ***(4) Negotiation and development of the Agreements***

Once the transfer is approved, a letter of offer and acceptance (LOA) is developed. The Service sales office, in this case SAF/IA, working with DSAA, will put together the LOA. This process can take anywhere from 60 to 180 days. Negotiations begin with the recipient country in order to determine what requirements will be in the agreement. Items discussed include: type of weapon system, what equipment will come with the weapon system (very important for controlling technologies), and price: (including procurement, handling, accounting, and delivery costs). Delivery dates, supply and support arrangements are also discussed. Coproduction arrangements can be involved and make negotiations very complex.

Here is where another very significant control mechanism on military technologies takes place. When the US government allows the sale of an advanced weapon system such as the F-15E to a foreign nation, it is not selling its top of the line

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<sup>47</sup> Also, this is the case where the National Disclosure Policy Committee may get involved. If the sale is pushed for at the highest of levels then an exception to the preapproved disclosure policy or baselines may

fighter. It is not a full-up US combat equipped aircraft, but an export version.<sup>48</sup> An export version of an aircraft is an aircraft that has limited combat capability in comparison to the version flown by the US military. The US will not sell or transfer any capability that has the potential to put our own forces at risk. Generally, this is done by limiting the flight or weapons delivery capability of the aircraft. Examples can include; changes in computer software so an aircraft can not maneuver as well as the US version (flight control tape change); or downgraded avionics that can reduce its capability to fly in weather, at night, or against certain threats.

Systems specifically close controlled are advanced radar hardware and software components, electronic warfare systems such as internal jamming pods or countermeasure dispensers, and radar warning receivers that can detect enemy aircraft radar. A recent article in *Electronic Defense* states the control measures well, "EW (electronic warfare) technology is still tightly controlled by the US national security apparatus. Highest on the evolutionary ladder of military force multipliers, and in high demand in emerging military markets in the Middle East, Asia-Pacific and Latin America, EW systems are often the last products released from the US security web--if they are released at all."<sup>49</sup>

When they are released, it is because of another important feature that is negotiated into LOA's. Strong allies do receive some of the US's most advanced equipment, but they only receive equipment if it will be serviced by US support. For

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be requested.

<sup>48</sup> See "Sale of F-15 Aircraft to Saudi Arabia, Part II," by Carl W. Ford, Jr. in the *DISAM Journal*, (Winter 1992/1993) 50. for an excellent discussion on export version of US F-15E aircraft.

example, it is common for an FMS agreement to require that US government depot and intelligence support teams do the reprogramming of electronic warfare gear.<sup>50</sup> The foreign nation is allowed to use the equipment, but the US controls it.

Also, logistics and supply (spare parts) support are controlled by the US so if the country becomes unfriendly those parts can be turned off. F-4 and F-14 sales to Iran in the 1970's are a common examples held up as a FMS success. When the Shah was overthrown, there was great fear the US had made a mistake in selling fighters to this country. Although US intelligence agencies did not foresee the Shah's overthrow, the FMS system worked. Iran was dependent upon the US for spare parts and maintenance. The aircraft very quickly became non-combat capable. DOD controls, in this case, ensured the F-4's and F-14's were no threat. The DOS and the DOD do all they can to ensure advanced weapon system technologies are not transferred and that foreign nations receive the minimum defense requirement.

#### ***(5/6) Performance of the Agreement and Feedback***

Once the LOA is approved by both sides the transfer of arms can begin. In FMS cases, DSAA operates and manages the entire process for the recipient country. They become the agency of choice to contact if the contractor is not meeting his delivery schedule or the equipment is not working as advertised. DSAA ensures that formal plans are worked out to set up logistical support for the transfer, as well as any training that may be included in the contract. DSAA works hand-in-hand with the contractor, the recipient nation, and any security assistance officers (ambassadors staff, or military

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<sup>49</sup> Zachary A. Lum, "Let the Walls Come Tumbling Down?," *Electronic Defense* Vol 18, No 3 (March 1995): 33.

liaisons) that may be helping with the transfer. It is also responsible for collecting payment for the transfers. Records must document the number and types of items delivered under the various contracts. In the case of FMS, accounting procedures must ensure the US government is reimbursed for the work of procurement.

Feedback refers to information about the impact of a military transfer or service. The feedback can be lessons from delivery of the equipment or it may relate to the use of the equipment by the foreign government. Reports are required to monitor the condition and use of the equipment. In most cases, these reports are accomplished by the in-country security assistance officers either at the US embassy or as part of the unified commander's staff. The reports are staffed by DSAA for release and notification to the State Department, Congress, and applicable DOD agencies. Intelligence assessments are included which insures US equipment is continuously monitored for third party transfer. How a country uses US equipment may determine that country's likelihood of receiving future transfers.

### **Conclusion**

This chapter provides an appreciation for the amount of control present in the arms transfer decisionmaking process. As decisions weave their way through the many actors in the DOS, DOD, and other governmental agencies, it is like a maze of control. This "labyrinth of control" is more than adequate to control the diffusion of military technologies.

Figure 3.1 shows the amount of bureaucracy in the arms transfer process. It is complex and has numerous and varied sources of inputs. Each directorate in each

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<sup>50</sup> Ibid. 34.

department, whether it be DOS or DOD, has its own regional or country intelligence desk to assess the requesting country's motives. This system has been built around the restraint of arms trade, and the Cold War maintenance of the US technology lead.

***"The Labyrinth of Control"***

*There is more than adequate control  
in the US government to insure that  
US advanced military technologies  
are not diffused around the world.*

Based upon the historical development and motivations of US foreign policy (chapter two), the US has established stringent controls on arms sales to foreign powers (chapter three). Given this, the following chapter addresses the possibility of loosening these controls in order to instigate more foreign sales, which in turn would create a market to sustain the US DTIB.



## CHAPTER FOUR

### Maintaining the DTIB with US Government Support

*Although one normally would think of defense as an issue that should be considered in a closed domestic economic system, the facts indicate the contrary. The US DTIB is increasingly dependent on sales of military equipment abroad.*

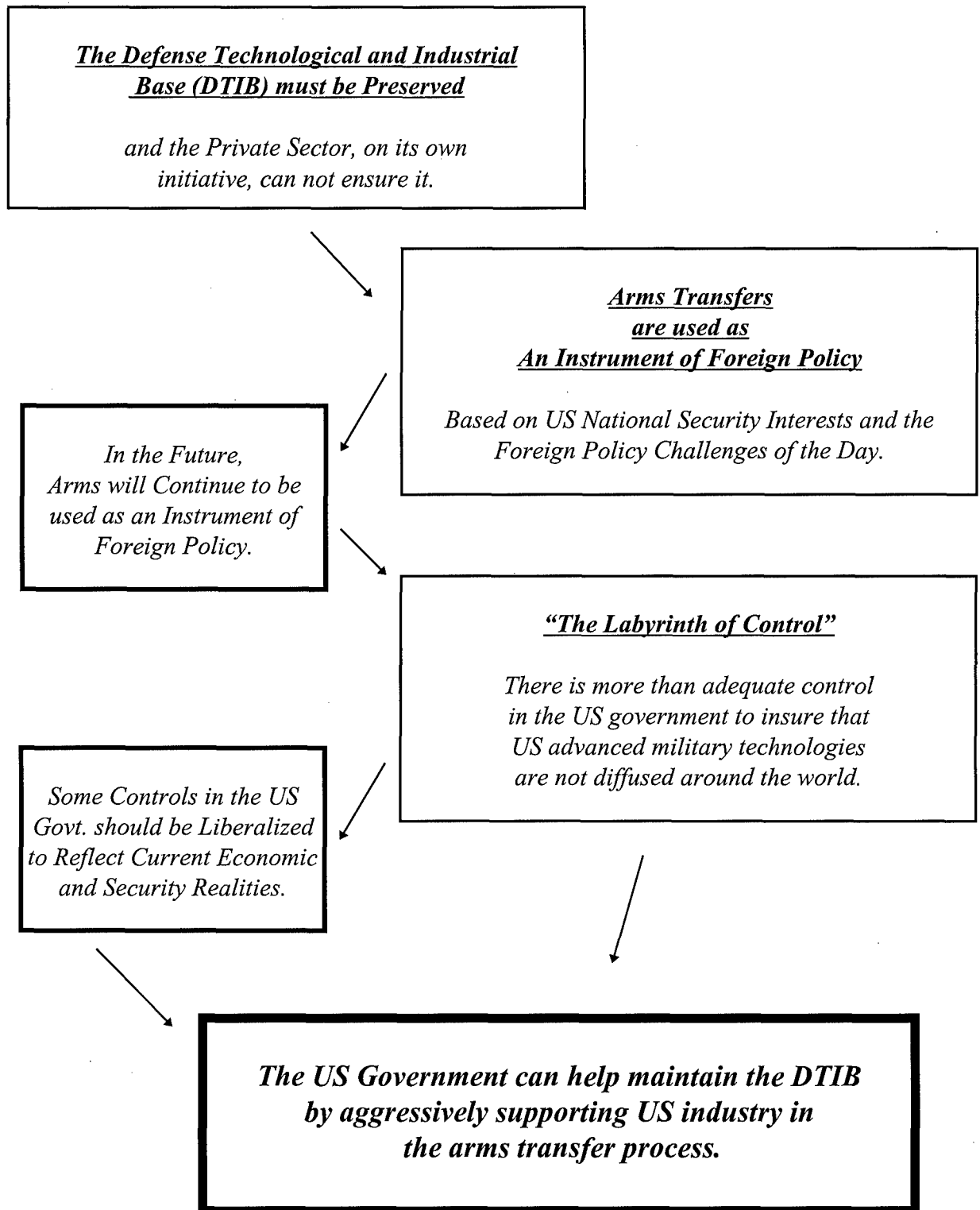
*Jacques S. Gansler*

The US government can preserve the DTIB by aggressively supporting US industry in the arms transfer process. Figure 4.1 demonstrates this paper's logic flow on why and how the US government can help maintain this base. The DTIB must be preserved. Arms transfer have and will continue to be an instrument of foreign policy. Controls in the arms transfer decisionmaking process must be liberalized to reflect current economic and security realities. With an awareness these assertions must be accomplished, the US government can help maintain the DTIB by aggressively supporting US industry in the arms transfer process.

Arms transfers continue to be an instrument of foreign policy based on US security interests. As chapter two suggested, US arms transfer policy has reflected the security interests of its governments for over fifty years. There is no reason to expect this won't continue. The Middle East and Korea continue to be of vital concern to the US security community and every effort will be made to enable regional stability to prevail in those parts of the world. Along with regional and world security issues, the evidence suggests US foreign policy reflect the importance of economic security and the DTIB.

## **Arms Transfers Can Help Preserve the DTIB**

(Figure 4.1)



The US is competing on a world stage for economic influence like it has never competed before. Aspiring economic leaders such as Japan and Germany are competing for market share at an unprecedented rate. That competition extends into the worldwide arms market. While there is little threat of general or conventional war on a global scale, regional stability and balance is sought throughout the world. The US has taken the leadership role in this regard and is looked on as the military superpower with the military equipment of choice.

Exports of US weapons have great appeal and could grow for one simple reason. The Gulf War showed the effectiveness of US manufactured weapon systems. CNN scenes from the War were transmitted to the world demonstrating the technological achievements of laser guided bombs from stealthy and non-stealthy aircraft alike. Weapon systems, such as the F-16, F-15E, F-117, and AWACS received rave reviews.

Although the US has the equipment of choice, many nations are unable to acquire it. US controls make it difficult for most nations to even be allowed to purchase US weapon systems. These controls must be reduced so that the US DTIB can remain strong. The author is not suggesting the US sell everything to everyone, but controls can be liberalized and the process streamlined, especially for very close allies.

The decisionmaking process of the President, Department of State, DOD, and other governmental agencies is smothering the capability of US industry to respond to foreign nations requests for arms. There are so many rules, regulations, and baselines to consider, as well as political restraints, that many nations are going elsewhere for their arms. For example, when Congress refused to approve a 1986 F-15 deal with the Saudis, the Gulf nation turned to the Tornado fighter built by a European consortium led by

British Aerospace, in a deal that earned an estimated \$17 billion.<sup>51</sup> Do we want to lose sales, hurt our DTIB, lose a foreign market and important diplomatic ties, over politics, or rules and regulations, just to have the country buy from someone else? Isn't it better for the US to know what a foreign government has purchased because they bought it from the US? I think the answers to these questions are obvious.

The US government must find ways to help US defense industries market their products overseas. The Clinton Administration has taken one step toward liberalizing export controls but much more can be done. Lynn Davis, President Clinton's Under Secretary of State for International Security Affairs, recently outlined the Clinton Administrations export control policy. It is an attempt to "liberalize export controls and redesign export control procedures and processes in light of the dramatic changes in the world, and keep controls focused on weapons of mass destruction, missiles, advanced conventional arms, and other threatening military capabilities."<sup>52</sup> The effect of this new policy is significant for the commercial computer industry. In fact, by simply raising control thresholds for the export of computers and supercomputers, the Administration decontrolled several billion dollars worth of exports. The streamlining is continuing in the dual-use technology area.<sup>53</sup>

Today's dual-use export control system is quite different from even a few years ago. In the mid 1980's the US government reviewed about 120,000 licenses per year. With reduced controls in 1993, only 27,000 licenses were reviewed. By 1994, with

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<sup>51</sup> Larry Grossman, "US Weapons Merchants Pin Hopes on Foreign Markets," *Government Executive* (August 1992): 118.

<sup>52</sup> Lynn E. Davis, "Export Controls and Non-proliferation Regimes in the Post-Cold War World," *The DISAM Journal* (Spring 1994): 65-68.

further reductions in Commerce export procedures, only 16,000 licenses required review.<sup>54</sup> If this type of streamlining could be applied to the DOD, arms transfers could be allowed quicker and to more countries. Sadly, it has yet to be applied or have an effect on arms transfer procedures.

Another area where the US government should take a proactive role for arms transfers is in the negotiation for offsets and coproduction development agreements.

*Offsets are defined as an entire range of industrial and commercial compensation practices provided to foreign governments and firms as inducements or conditions for the purchase of military goods and services.<sup>55</sup>*

Foreign governments often require or request offsets to reduce the financial impact of their purchases. Offsets are considered an important competitive tool for US contractors, particularly when selling to countries making purchases with their national funds and when foreign competition is involved.<sup>56</sup>

*Coproduction is a US government program implemented either by a government-to-government arrangement or through specific licensing arrangements by designated commercial firms. It enables foreign entities to acquire the know-how to manufacture or assemble, repair, maintain, and operate all or part of a specific defense item or weapon, communication, or support system.<sup>57</sup>*

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<sup>53</sup> Dual-use technologies are civilian technologies, like advanced computers, machine tools, and chemical plants, that can or have the potential to be used to develop military capabilities.

<sup>54</sup> Davis. 68.

<sup>55</sup> Russell D. Feingold, "Military Exports: Concerns Over Offsets Generated with US Foreign Military Financing Program Funds," GAO Report to Congress (June, 1994): 1. (*Israel, Egypt, Greece, and Turkey are the largest recipients of the FMF program. Since FY75, the US has provided over \$60.1 billion in FMF funding consisting of grants and loans to these countries*).

<sup>56</sup> Russell D. Feingold, "Military Exports: Concerns Over Offsets Generated with US Foreign Military Financing Program Funds," GAO Report to Congress (June, 1994): 1.

<sup>57</sup> National Security and International Affairs Division, "Technology Transfer: Japanese Firms Involved in F-15 Coproduction and Civil Aircraft Programs, a GAO report to Congress (June, 1992): 1.

While offsets and coproduction agreements can help increase the US global arms market, offsets are often criticized as a form of bribery. They are characterized as illegal, immoral, or the shady side of a military sale. They are not. The US needs to realize, instead, that the international arms market is competitive and that offsets are nothing more than a way of engaging in a reciprocal trade agreement. Unfortunately, when an international customer comes to the US government with its list of requirements including offsets, it immediately learns that the United States does not like nor wishes to accept responsibility to implement the offset or incur its costs.

The most common offset arrangement the US government participates in is to those countries that receive the most foreign military financing (FMF). Recall from chapter two, the US makes grants to some countries by waiving FMF. For example, since 1987, Israel and Egypt have received FMF grants valued at \$1.8 billion and \$1.3 billion each year, respectively. Additionally, since 1991, Israel has been authorized to spend \$475 million of that grant within their own country (the offset).<sup>58</sup> While offsets are a questionable use of US FMF funds,<sup>59</sup> they are a method to insure American companies get introduced to the foreign market. It has been common for a company, once working within a country, to remain the company of choice. Therefore, future diplomatic and business ties are improved with the first sale. The US government needs to learn how to help American industry in the offset arena.

Coproduction agreements are being requested at an increased rate as countries no longer wish to remain dependent on any one supplier. They would like to increase their

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<sup>58</sup> Feingold. 4.

<sup>59</sup> Ibid. 9.

own industrial base and technological know-how in at least a small way to help out their domestic situations. These agreements, while having a few down sides for American industry, again offer access to a foreign market that otherwise may not be there. Many countries can not afford to pay out of their national treasuries for weapon systems and would not purchase from the US if a coproduction agreement was not arranged. The US government can help US industry by supporting them in coproduction agreements.

Coproduction agreements can have a downside -- *technology transfer*. In order to ensure advanced military technological processes are not transferred to foreign nations, the US government has to understand the difference between a *technological product* and a *technological process*. It then must recognize that the main goal is to protect advanced *technological processes*. If a foreign nation acquires a *product* that is advanced without the know-how to build or fix that product, then very little, if any, technology is actually transferred. If, however, the US allows a country to build a sophisticated *product* then we have taught and transferred a *technological process*. This is where US controls should remain in place, not on the sale of *products*.

Principle objectives for the industrial base were published in a 1992 *Defense Industrial Base* white paper. One called for the DOD to "establish an industrial base oversight process that will identify critical *processes* or capabilities;" and the "potential loss of these critical *processes*."<sup>60</sup> This is exactly the type of control necessary in the arms transfer business, not the system currently focused on *products*. If the US went into

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<sup>60</sup> Department of Defense publication, "The Changing Defense Industrial Base," *The DISAM Journal* (Fall 1992): 17.

every sale and coproduction negotiation understanding this difference, the underlying fear prevalent in arms sales to foreign nations would be greatly diminished.

Another important item to consider is the status of US major weapon system production lines. Production lines for nearly all fighter aircraft, the F-14, F-15, F-18 and all tanks, the M-1 and the Bradley Fighting Vehicle, will be ending in the near future. Follow-on systems are five or more years off because of stockpiled weapon systems and the lack of threat.<sup>61</sup> The DOD, however, is beginning to recognize the importance of US production lines, their inherent *technological processes*, and has begun taking steps to preserve this portion of the DTIB.

Recent sales of F-15E's to Saudi Arabia and Israel are excellent examples of this type of preservation. The McDonnell Douglas F-15 was about to go out of production until sales were made to Saudi in 1992. As a part of this sale, Frank Wisner, Under Secretary of State for International Security Affairs, recognized the value of this sale as an important way of preserving the US DTIB. He stated, "...the ability to maintain this kind of industrial base through prudent arms sales enables (the US) to continue producing the best defense items in the world."<sup>62</sup>

In 1995 five major weapon systems (F-15, F-16, Patriot, Apache, and Blackhawk) will be sold almost entirely to foreign countries.<sup>63</sup> The only thing keeping those lines open and preserving manufacturing *processes* is foreign military sales (FMS). These

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<sup>61</sup> David J. Louscher, "The Contribution of Arms Exports to the US Economy and Balance of Trade," *Arms Transfers, Export Control, and Dual-Use Technology in the Aftermath of the Kuwait War*, from a AAAS Congressional Seminar, Washington DC (April 17, 1991).

<sup>62</sup> Frank Wisner, "Sale of F-15 Aircraft to Saudi Arabia, Part I," *The DISAM Journal* (Winter 1992/1993): 47.

<sup>63</sup> Jeffrey R. Smith, "Administration Battles Over Arms Sales Policy," *The Washington Post* (November 16, 1994): C-1.



sales therefore, are and will continue to be vital to the health of the DTIB. Total 1995 FMS dollars will reach nearly \$15 billion.<sup>64</sup> This represents a fairly large share of US arms production since the US is buying only very small numbers of major weapon systems. If the sale of 150 F-16s to Taiwan and the sale of F-15s to Saudi Arabia and Israel had not occurred, it is very likely these lines would have closed and there would have been no reconstitution capability for fighter-type aircraft if needed in time of crisis.

There must be some short term surge capability, medium term expansion capability, and long term reconstitution capability in the US DTIB. These processes can not be started up over night. If production lines are closed, important defense workers lose their jobs, subcontractors move into different businesses, and many suppliers may go out of business never to found in time of need. This fact is perhaps more important than the prime contractor line itself. For example, it is projected the F-16 will suffer from spare parts shortages for the foreseeable future.<sup>65</sup> If the US DTIB is unable to provide adequate spares and supplies to our aircraft in the inventory, the US will have a very difficult time fighting any prolonged conflict. The US government must support US industry in this endeavor.

The US DTIB is in a very perilous position and requires aggressive support from the US government. The future security of the US, both economically and militarily, could depend on it. At present, the US government is doing little to preserve the DTIB. Over the past five years procurement dollars are way down and future defense budgets

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<sup>64</sup> Department of Defense, Defense Security Assistance Agency, Fiscal Year Series, published 30 September 1993.

promise more in the way of cuts. The challenge is to preserve the DTIB without having to continue the purchase of arms for US arsenals like in the past.

This challenge can be met by understanding the importance of the DTIB and supporting its preservation. I recommend the US government maintain the DTIB by aggressively supporting US industry in arms sales around the world. While I do not wish for *technological processes* to end up in the wrong hands, I recommend the US government liberalize or streamline its “labyrinth of controls” on the arms transfer decisionmaking process.

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<sup>65</sup> William Hallin, Maj Gen, Presentation to the Air War College, Robins Air Logistics Center, Georgia, 22 Nov, 1994. (Speaker quoted in an unpublished paper by Lt Col Douglas Goebel on preserving the Defense Industrial Base).

## ACRONYMS

|        |  |
|--------|--|
| AECA   | Arms Export Control Act                          |
| AF/IN  | Air Force Intelligence                           |
| AF/XO  | Air Force Operations Directorate                 |
| AWACS  | Airborne Warning And Control System              |
| CNO    | Chief of Naval Operations                        |
| CSAF   | Chief of Staff of the Air Force                  |
| DIA    | Defense Intelligence Agency                      |
| DRSA   | Office of Defense Relations Security Assistance  |
| DSAA   | Defense Security Assistance Agency               |
| DTIB   | Defense Technological and Industrial Base        |
| DTSA   | Defense Technology Security Administration       |
| EXMASF | Excess Military Assistance Service Fund          |
| FMF    | Foreign Military Financing                       |
| FMS    | Foreign Military Sales                           |
| IMET   | International Military Education and Training    |
| IPO    | International Program Office (Navy)              |
| ISA    | International Security Affairs (DOD)             |
| ITAR   | International Traffic in Arms Regulations        |
| JSOP   | Joint Strategic Operations Plan                  |
| LOA    | Letter of Offer and Acceptance                   |
| MASF   | Military Assistance Service Fund                 |
| MDE    | Major Defense Equipment                          |
| MRC    | Major Regional Conflict or Contingency           |
| NDPC   | National Disclosure Policy Committee             |
| SAF/IA | Secretary of the Air Force/International Affairs |
| SAO    | Security Assistance Officer                      |
| USASAC | United States Army Security Assistance Command   |

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